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OGC REVIEW COMPLETED

20 September 1956

MEMORANDUM FOR: Mr. Lawrence R. Houston

SUBJECT: Negotiations with Officials of Omaha Mutual

1. Apparently there is continuing discussion of the basis on which negotiations were conducted with officials of Omaha with respect to the life insurance contract. Although the company involved is the United Benefit Life Insurance Company the negotiations by CIA officials actually were conducted with Omaha officials since United Benefit is a subsidiary or otherwise linked to Mutual of Omaha. You have indicated to me that there is still some belief that the risks of the type involved with personnel under AQUATONE were not contemplated.

2. In the literal sense of the words used it possibly could be said that the specific risk was not contemplated. However, this would be to judge the entire situation without regard to all of the pertinent factors. It is difficult of course after a number of years to recall specific conversations. However, at the time of the negotiations there was a newspaper article which involved WAEPA and its request for a zoning permit. The newspaper article stated that WAEPA insured thousands of CIA agents who were behind the iron curtain. This story was discussed with Omaha officials. It is my clear recollection that they were given to understand that the story as such was not true and that the normal types of staff employees would be generally covered but that there might be unusual situations which would encompass individuals such as were mentioned in the newspaper article. Certainly we did not advise the Omaha officials that the AQUATONE type of risk would be covered since we were not aware of that type of risk at the time.

3. There are certain risks excluded in the over-all United Benefit policy such as the double indemnity feature not applying in the case of crews of aircraft. The mechanics for administering the contract which in effect provide for return of funds derived from premiums less claims

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paid less a fixed fee of 12% less, I believe, a further reserve factor of 5%, indicates that the true basis of the risks to be covered was left somewhat on an open-end basis and the experience factor was to be the key to future contracts. Certainly it should be recognized that Omaha in effect is acting as a banker in holding our funds, charging a 12% fee for administration and in the initial steps assuming a small risk. Incidentally, it is my recollection that the 5% reserve factor is simply to be held by Omaha for the benefit of GEHA. As a lawyer who participated not only in the negotiations but in the review of the contract provisions, I feel that the contract best expresses what risks should or should not be viewed as having been contemplated. If Omaha as an experienced and bigtime operator wished to exclude certain risks they were under an obligation so to provide in the contract. Since they did not, it is my view that the contract as written which does not exclude AQUATONE type risks is consistent with the oral negotiations.

4. As I indicated orally I think a security factor in the payment of AQUATONE claims should be reviewed carefully. The contract specifically provides that in the event of a claim the Agency may certify the death and have a check made payable to either the Agency or a nominee for disbursement to the proper beneficiary. The cause and circumstances of death are not a prerequisite under the contract for payment of the death claim.

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